

CAPITOL & CALIFORNIA

CALIFORNIA BUDGET WOES | Deficit estimate delayed until Wednesday

Revenue gap stalls sale of bonds

By STEVE WEGAND
swegand@sacbee.com

California's current budget mess is stalling the state's ability to market bonds or borrow money to ease its cash-flow crunch, officials said Friday.

Gov. Arnold Schwarzenegger's administration, meanwhile, postponed formally releasing the latest bad budgetary news until it can put it next week with a proposal to clean it up.

Administration officials had originally planned to release their estimate on the current size of the budget's gap between revenues and

spending Friday afternoon.

Various state officials — including Schwarzenegger — have informally put the number at from \$10 billion to \$12.5 billion for the fiscal year that ends June 30.

But H.D. Palmer, a spokesman for the governor's Department of Finance, said the release would be postponed until Wednesday, the day after the election.

That way, Palmer said, it would coincide with Schwarzenegger calling the Legislature into special session to deal with the deficit — and the governor's unveiling of his proposal to

close the gap.

"We decided we wanted to do it in one unified package," Palmer said, "the size of the problem and the scope of the solution."

Until there is a solution on the table, the treasurer's office is putting the brakes on issuing any of the billions of dollars in general obligation bonds voters have already authorized but haven't been sold.

It may also postpone trying to seek a \$2 billion loan through the issuance of short-term notes that had been scheduled for mid-November. The money would help the state keep afloat

while awaiting tax revenues that flow in greater amounts in the spring.

The state issued \$5 billion in revenue anticipation notes, or RANs, in mid-October. But it had to pay hefty interest rates of 3.75 percent to 4.25 percent — double the rates other states have paid recently — in part because of the state's shaky financial condition, and in part because of the large size of the issuance.

Since then, the estimated deficit has at least tripled from the \$3 billion figure Finance Department officials came up with at the time,

Budget: Delay of bond sales called prudent

FROM PAGE A3
making the cost of issuing new notes problematic.

Tom Dresslar, a spokesman for state Treasurer Bill Lockyer, said Friday that "whatever the official (deficit) number turns out to be, the Legislature and governor face the same task they've faced all year: Produce an honestly balanced and gimmick-free budget."

"After the governor announces the official figure and unveils his plan to resolve the problem, we will at that time evaluate our options regarding further issuance of debt in this fiscal year."

Bond market experts said Lockyer's wait-and-see decision was a fiscally prudent move.

If the state issued more notes now, said Jeffrey Small, managing director of the Capital Public Finance Group, it would run the risk of a low credit rating that would increase the notes cost.

"Second, because there is not a lot of money coming into the municipal marketplace right now, it would be much more difficult to sell a large \$2

billion loan than in the past," Small said.

The impact of the state paying higher interest rates on the money it borrows in the bond market goes beyond driving up the cost for state taxpayers, Small said.

"When the state of California comes out with an interest rate on an eight-month deal of 4.25 percent," he said, "within 15 minutes the level on every other municipal bond out there is going to have to increase," meaning cities, school districts and other local government entities will also pay higher rates on the money they borrow.

While the state's budget mess is adversely affecting bond sellers, however, it's unclear what impact it's having on those who authorize the bonds: the voters.

Numbers released Friday by the Field Poll on the four bond proposals on Tuesday's state ballot found voters were taking a mixed approach:

■ Proposition 1A, the \$9.95 billion high-speed rail proposal, was favored by 47 percent, down from 56 percent in

FIELD POLL: STATE BOND MEASURES

Likely voters have mixed views on four bond measures on Tuesday's ballot.

	YES	NO	UNDECIDED
Prop. 1A (high-speed rail)	47%	42%	11%
Prop. 3 (children's hospitals)	54%	35%	11%
Prop. 10 (alternative fuel vehicles)	49%	39%	12%
Prop. 12 (veterans' home loans)	58%	29%	13%

Note: The findings for Proposition 3 are based on a telephone survey conducted Oct. 18-28. In English and Spanish, 966 Californians who have already voted or are likely to vote in Tuesday's election. The results carry a maximum margin of error of plus or minus 3.3 percentage points. The other bond results were drawn from a random subsample, and the margin of error for those is plus or minus 4.6 points.
Source: Field Research Corp.
NAM NGUYEN nguyen@seebee.com

July, Proposition 3, the \$980 million children's hospital proposal, was favored by 54 percent, up from July's 47 percent.

■ Proposition 10, the \$5 billion alternative fuel proposal, was favored by 49 percent.

■ Proposition 12, the \$900 million veterans housing proposal, was favored by 58 percent.

Neither 10 nor 12 were surveyed by the poll in July. Field Poll director Mark DiCamillo said he had hypothesized before the survey that many voters would oppose all the bonds because of the state's financial problems.

But the poll found that only about 14 percent of those surveyed were voting no on all the bonds, compared to about 17

percent who were voting for all four.

"The big chunk of voters are saying, 'I'm going to vote yes on some and no on some others,'" he said. "The question is, which ones will they choose?"

DiCamillo said that while all four proposals were leading, the two least costly measures, 3 and 12, were already favored by a majority of voters, while the two pricier proposals had yet to break the 50 percent mark.

"I believe it's the price tags," he said. "The question becomes, 'Will voters also endorse one or both of the big-sized bonds?' My gut says they probably won't."

Call Steve Wagandt, Bee Capital Bureau, (916) 321-1076.